

**Signing Ceremony of Memorandum of Cooperation between Secondary  
Mortgage Corporation, Thailand and Cagamas Berhad, Malaysia**  
6<sup>th</sup> August 2018, Thailand

# **CAGAMAS' JOURNEY TO SUCCESS**

**Datuk Chung Chee Leong**  
President/Chief Executive Officer





# **OVERVIEW OF HOUSING FINANCE MARKET IN MALAYSIA**

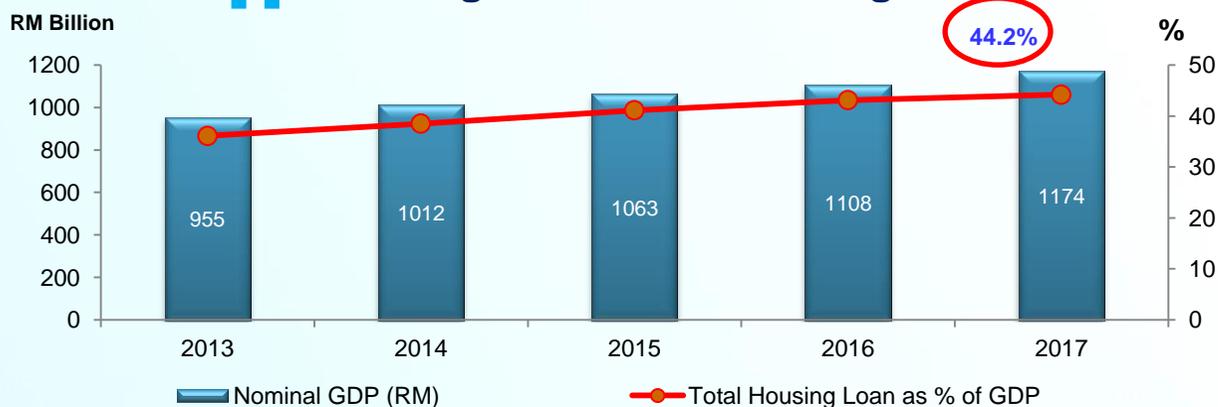
# Housing Finance Market

## Mortgage Originators in Malaysia:-

Private sector plays a dominant role in development in Malaysia

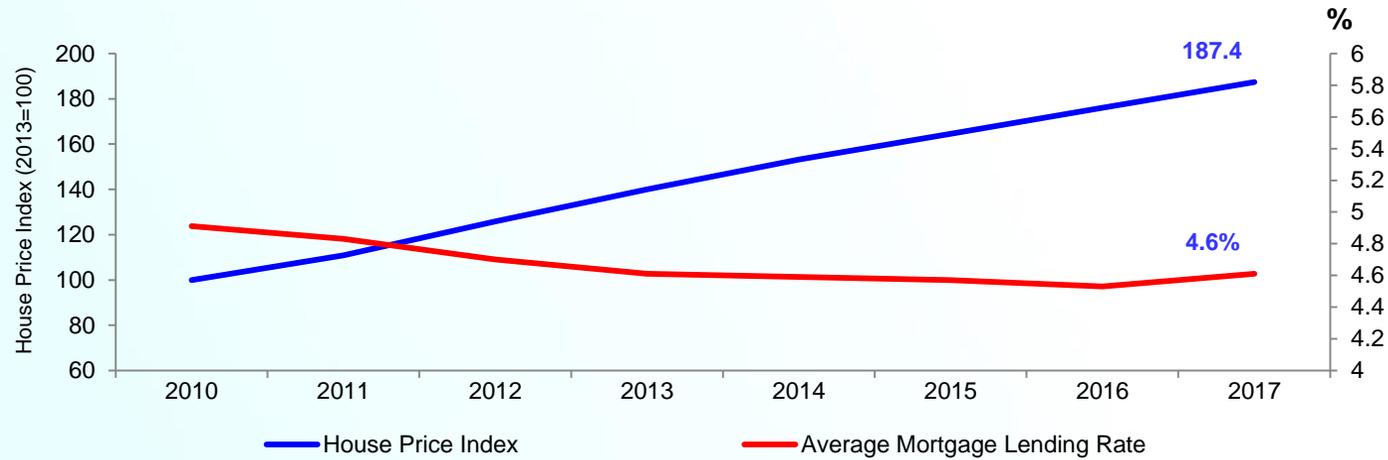
Private Sector	Public Sector	Secondary Mortgage Corporation
<ul style="list-style-type: none"> <li>Commercial Banks (Conventional and Islamic Banks)</li> <li>Development Financial Institutions</li> <li>Others : Insurance Companies, Co-operatives, Developers</li> </ul>	<ul style="list-style-type: none"> <li>Public Sector Housing Financing Board</li> </ul>	<ul style="list-style-type: none"> <li>Cagamas Berhad</li> </ul>

## Housing Loans Outstanding to GDP:-

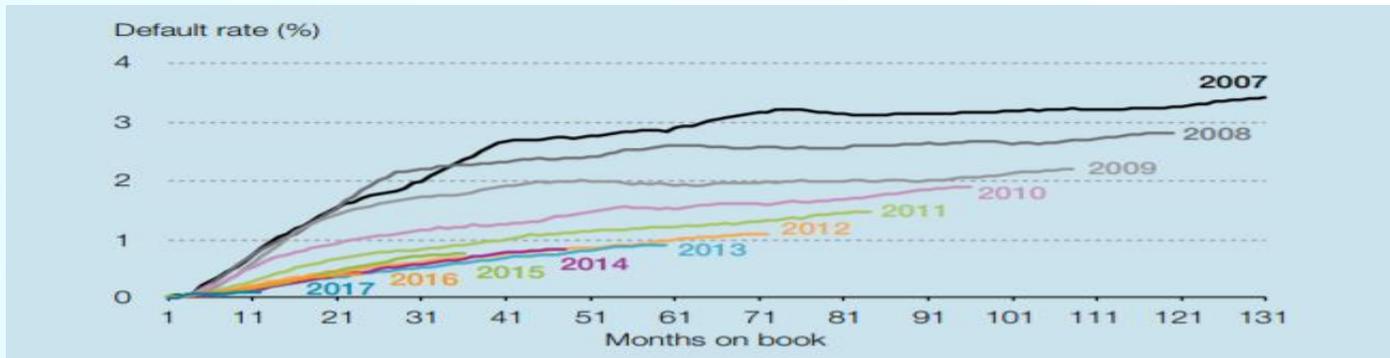


# Housing Finance Market (cont'd)

## House Price Index and Mortgage Rate :-



## Default rates of housing loans improved since 2007:-



# Characteristics of Housing Loans in Malaysia

	In the 80's	Now
Tenure	10-15 years	Max 35 years
Interest Rate	Fixed (8% -12% p.a) Monthly rest	Floating - Daily rest <u>or</u> Teaser rate for first few years
Repayment	Amortising	Amortising <u>or</u> Step-up Repayment Schedule
Structure	Conventional	Conventional and Islamic
LTV	≈ 80%	≈ 90%
Auction Process	2-3 years	Within 1 year
Special Housing Loans	Quota for individual/banks for housing loans below RM25K	No quota

# Home Ownership: Government's Policy

## Government Policy

- Increase supply of housing to the market
- Provision of adequate, affordable and quality houses
- Enhancing accessibility to housing finance supply
- Encourage home ownership

### **Objective of housing policy**

- to increase accessibility to adequate, affordable and quality houses

### **Actively promote home ownership since 1970s**

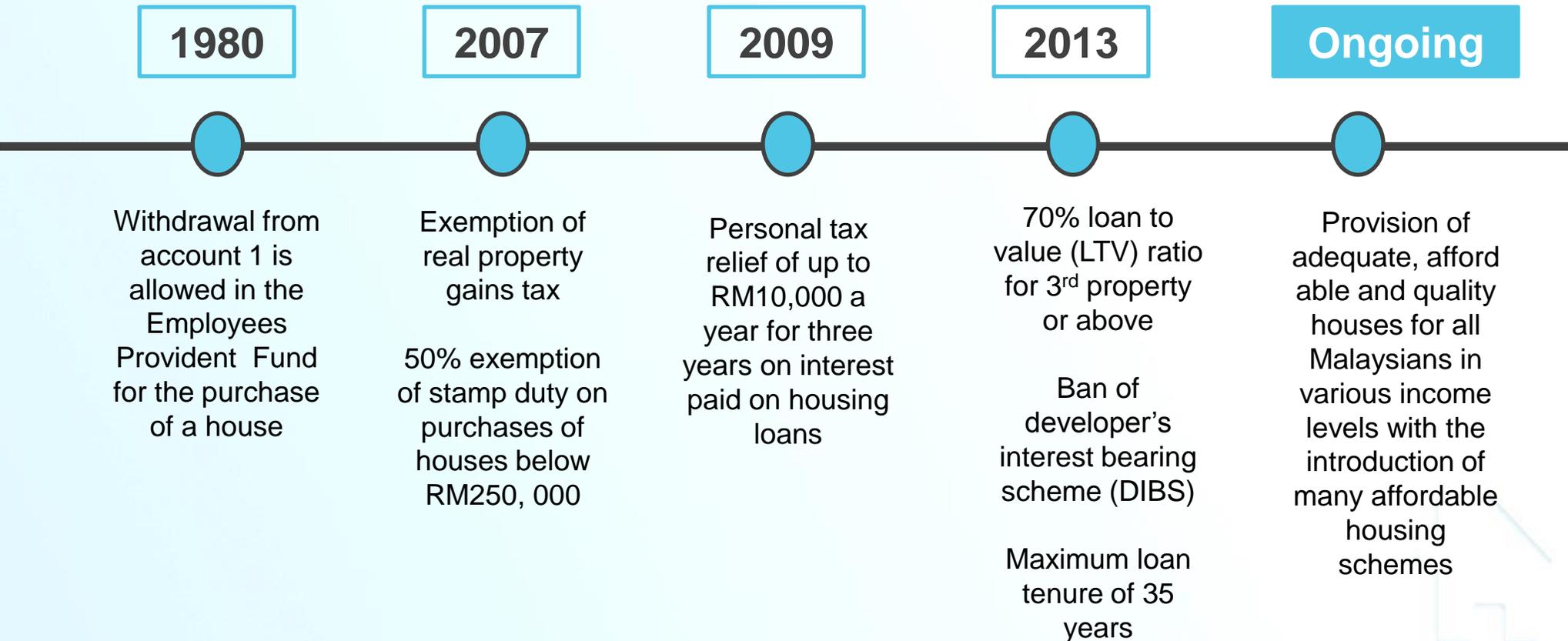
- especially among the lower and middle income groups



# Measures Introduced by the Government

Over the years, the Government continues to introduce new measures to facilitate the housing finance system and also to curb house price speculations.

Among the measures introduced :



# Government Assisted Financial Schemes

- Provision of adequate, affordable and quality houses for all Malaysians in various income levels with the introduction of many housing schemes

Schemes	Service/Product Offering
Housing Credit Guarantee Scheme	<ul style="list-style-type: none"> <li>▪ Guarantee scheme to enable applicants above 18 years old with good repayment capability but without fixed income, to purchase their first home priced up to RM300,000(USD75,000)</li> </ul>
My First Home Scheme	<ul style="list-style-type: none"> <li>▪ Guarantee scheme that enables applicants below the age of 40 years with monthly income of up to RM5,000 (USD1,250) - for single and RM10,000 (USD2,500) – for married couple to purchase their first home of up to RM500,000 (USD125,000).</li> </ul>
Youth Housing Scheme	<ul style="list-style-type: none"> <li>▪ Financing facility with guarantee facility to assist single or married youths between 21 to 45 years old, with income of up to RM10,000 (USD2,500) to own their very first home. The Government is also to aid monthly instalments of RM200 (USD50) per month for a period of 2 years to help buyer to pay for the instalment or interest of the mortgage.</li> </ul>
Housing Special End Financing Scheme	<ul style="list-style-type: none"> <li>▪ Financing facility to assist applicants above 21 years old to purchase homes with flexible loan repayment.</li> </ul>

# Role of Regulator

The **Central Bank of Malaysia** take a responsible and measured approach to ensure Malaysia's housing market remains strong and stable.

*The regulatory enhancements include:*

Strengthen risk management standard and corporate governance practices by financial market players

Effective policies in place for development of housing finance system

Comprehensive and robust regulatory and supervisory framework and effective surveillance



# Measures Introduced :

## Guidelines on Responsible Financing



Maximum tenure for home financing is 35 years.



Affordability assessment takes into account all existing debt obligations, including financing from all FSPs and other non-bank entities.



No prescribed debt-service-ratio (DSR) level but FSPs shall ensure that the DSR level is prudent enough to prevent the customers from becoming over-leveraged.



Proof of income may include salary slip, EPF statement, savings account statement or income tax submission.



Borrowers with no permanent employment or are self-employed may be required to provide evidence of income for a period of at least 6 months.



# **PRE- ESTABLISHMENT OF CAGAMAS**

# The market situation in mid 1980's

Funding mismatch in financial institutions resulting in liquidity crunch

Financial institutions were not lending to homebuyers despite their demand

Limited funding source in the market – no bond market



There was a need in the market for an institution to:-

- Function as intermediary between primary lenders and investors of long term funds; and
- Take on role of credible issuer of mortgage securities



# The move to a Secondary Market

- As a direct result of the needs of the market, Cagamas Berhad was incorporated in December 1986 as the National Mortgage Corporation with the following objectives:-



1

Alleviate the liquidity problem and reduce funding mismatch within the banking sector

2

Reduce the risk of unfavorable changes in the difference between the cost of funds of the primary lenders and the rate of return on their housing loans

3

Spearhead development of the private debt securities market



# ESTABLISHMENT OF CAGAMAS

# Company Overview

## Entity Name

Cagamas Berhad

## Shareholders

Bank Negara Malaysia (20%)

Commercial and Investment Banks (80%)

## Credit Rating

A3 Stable (Moody's) / AAA (RAM) / AAA (MARC)

## Date of Incorporation

2 December 1986

## Objectives

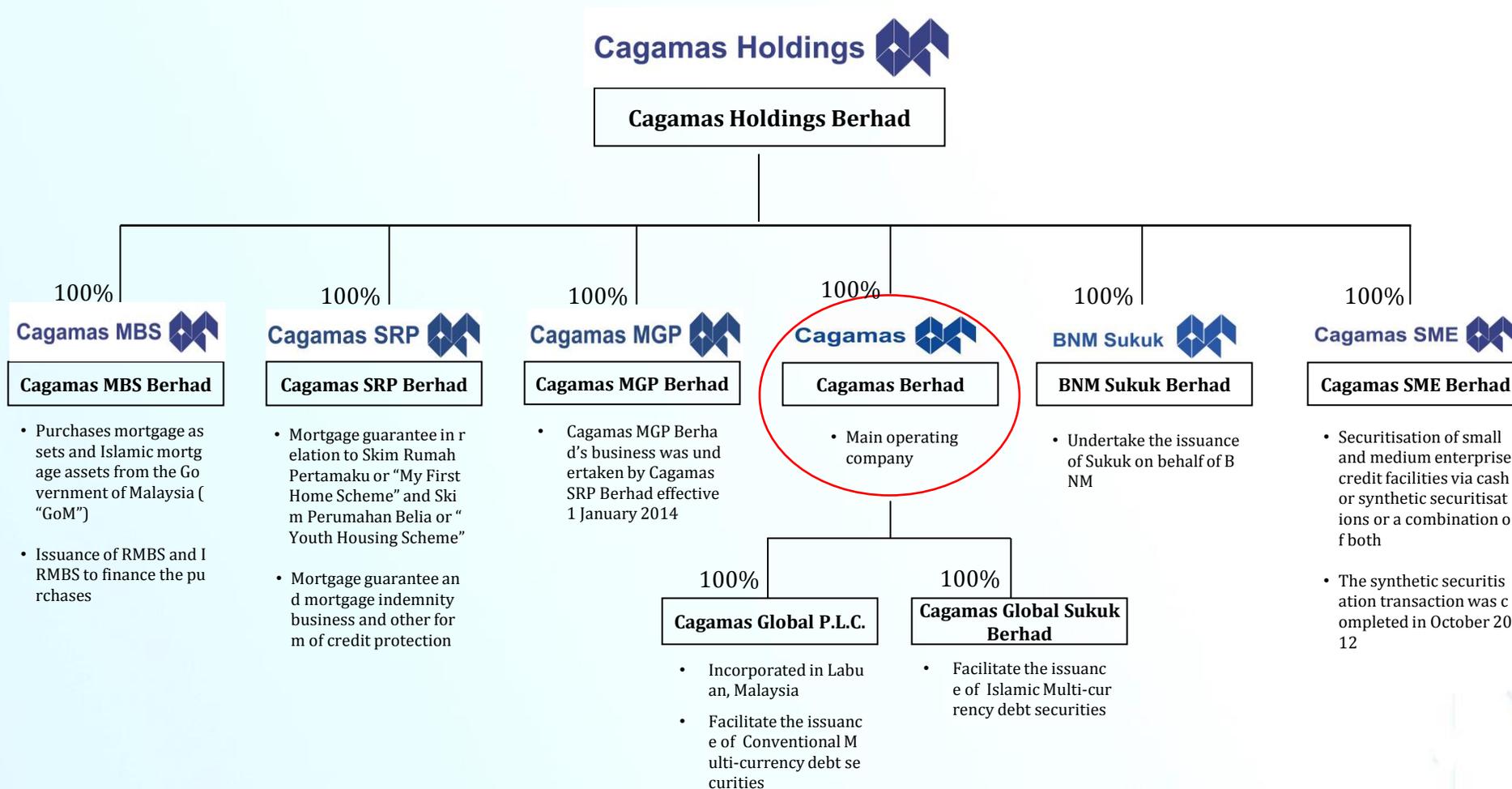
- Established by Bank Negara Malaysia to support the national agenda of increasing home ownership and promoting the development of Malaysia's capital markets
- Development and promotion of Islamic finance within Malaysia

## Business Model

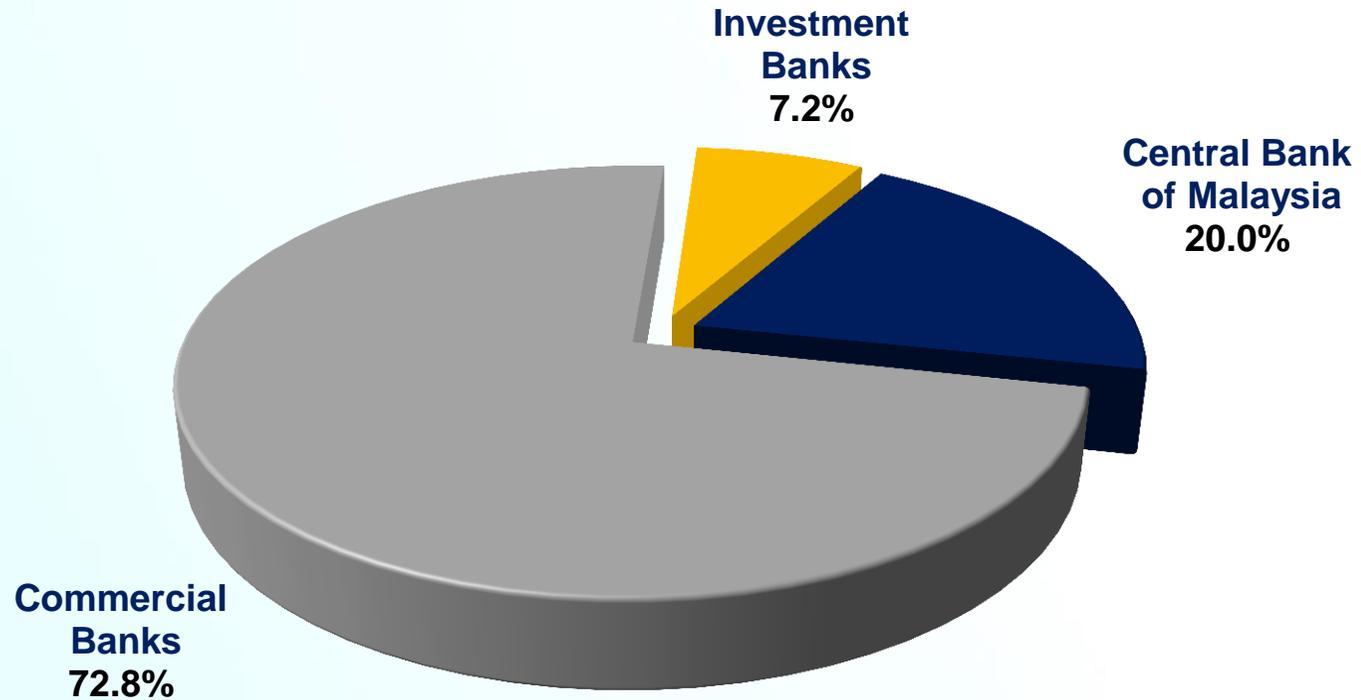
- Through the issuance of conventional bonds and sukuk, Cagamas funds the purchase of housing loans and house financings through its Purchase With Recourse (PWR) and Purchase Without Recourse (PWOR) schemes.
- By doing this, Cagamas is able to provide liquidity to financial institutions at a competitive cost, encouraging them to provide additional housing loans and house financings to new applicants at an affordable cost.
- The PWR and PWOR schemes have now been expanded to include other loans and financings such as SME loans, infrastructure financing and industrial hire purchase / leasing receivables.
- Guarantee housing loans and home financings under Mortgage Guarantee Programme (MGP)

# Structure of the Cagamas Group

Cagamas is a wholly owned subsidiary of Cagamas Holdings Berhad and remains the core revenue and profit generator for Cagamas Group

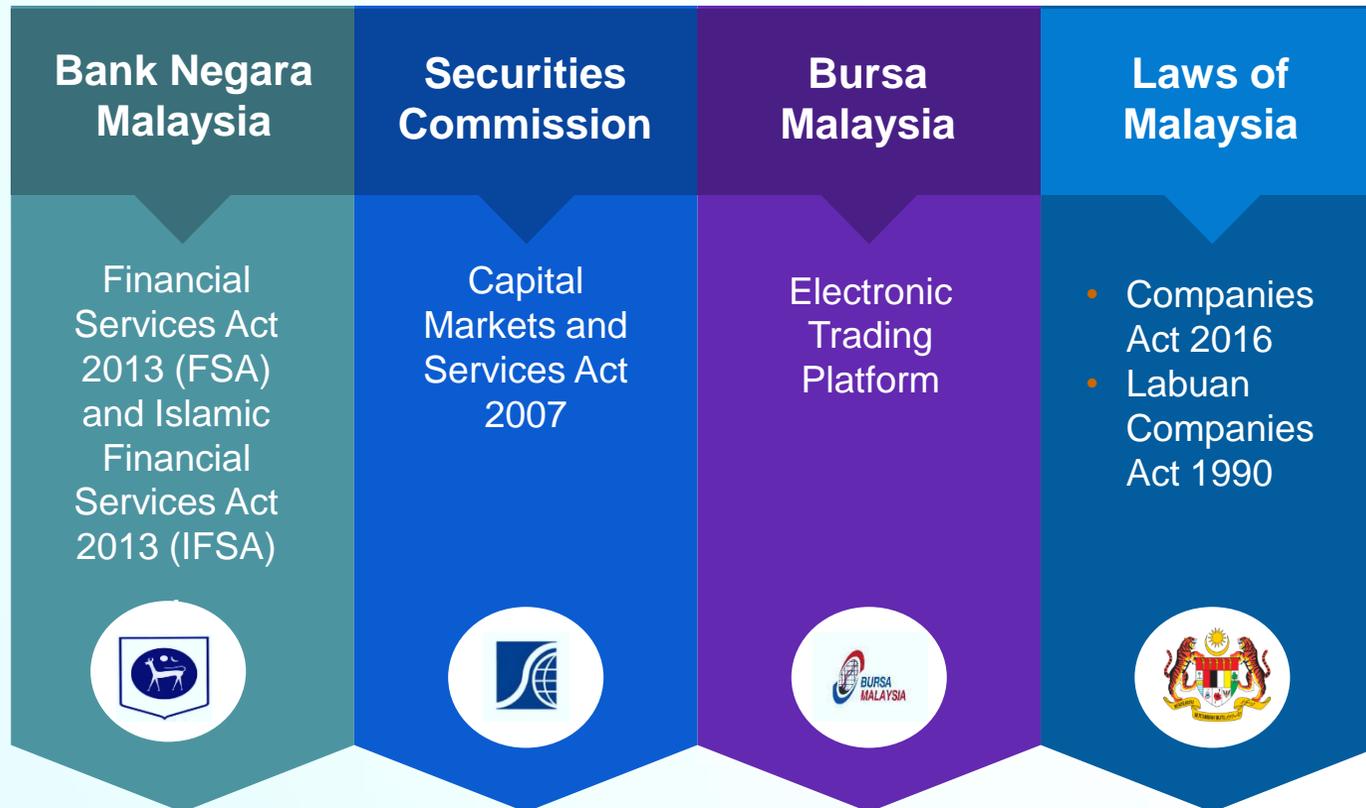


# Ownership Structure



# Regulatory Environment

 Governed by the following regulations under the respective authorities:-



# Regulatory Environment (cont'd)

## Regulatory support received :-

### Before 2004

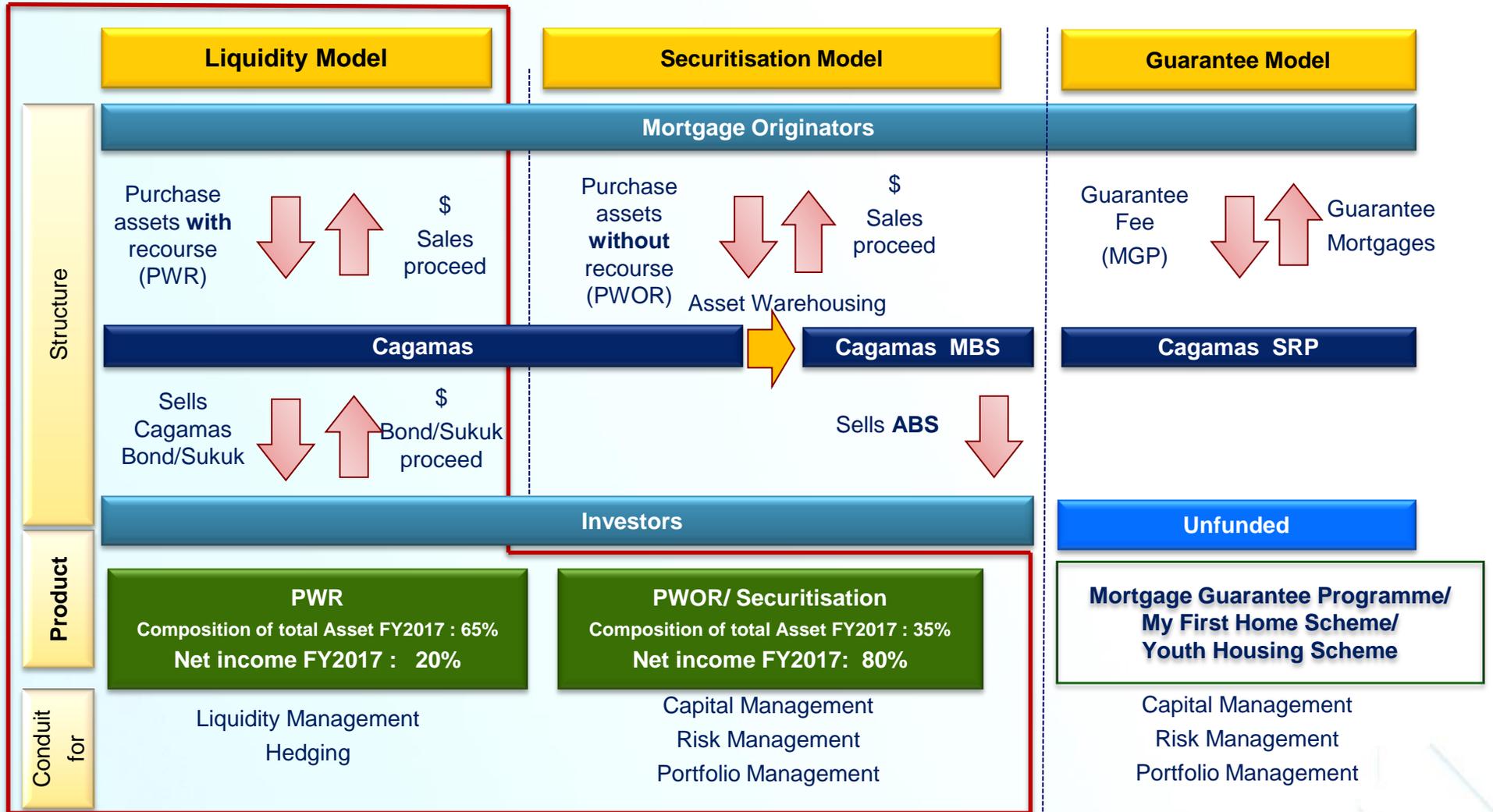
- 10% risk weight under the Risk Weighted Capital Ratio framework
- Class-1 liquefiable assets status under the liquidity framework
- 4% yield slippage under the liquidity framework
- Exempted from Single Customers Credit Limit (SCCL)
- Mode of primary issuance is through Principal Dealers' network
- Holdings by insurance companies classified as low risk asset
- A scheduled institution under Banking Financial Act (BAFIA)
- Access to domestic interbank money market (sole corporate participant)

### Current

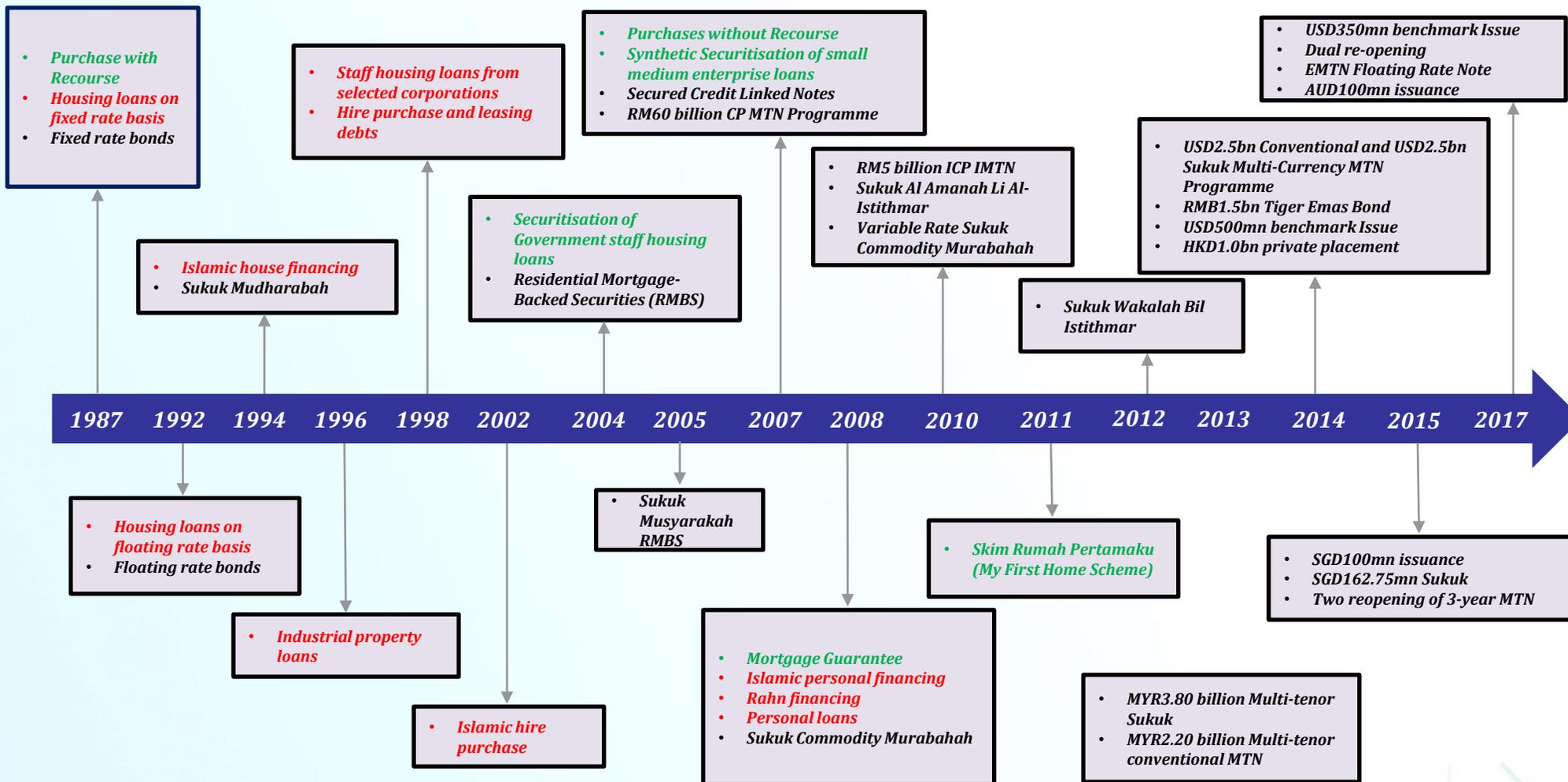
- 20% risk weight under the Risk Weighted Capital Ratio framework
- Class – 2A under Liquidity Coverage Ratio (LCR)
- Liquidity Framework superseded by Liquidity Coverage Ratio (LCR)
- Subject to SCCL of 25% of the total capital funds
- Mode of primary issuance is not through Principal Dealers' network
- Holdings by insurance companies classified as credit facilities
- Registered persons status under the Capital Markets and Services Act 2007 (CMSA)
- Access to domestic interbank money market (sole corporate participant)

# Strategic Business Model

Cagamas Berhad



# Establishing New Products for Market Development



Note: Structure in GREEN  
 Asset in RED  
 Bond / Sukuk in BLACK



## **ROLES & INITIATIVES**

# Roles in Housing Finance System

1

**Providing liquidity and hedging** to mortgage financiers – PWR programme

2

**Promoting origination of longer tenure house financing**

- Longer tenure financing of up to 35 years
- Demand for houses has strengthened and house financing is more affordable

3

**Generating strong competition among FIs to grant house financing.** Provide access to competitively priced funds, resulting in easy access to affordable house financing (particularly the low cost sector)

4

**Developing innovative structures** for mortgage financiers – mortgage guarantee under the My First Home Scheme (SRP) and Youth Housing Scheme (SPB) to promote home ownership among young working adults

5

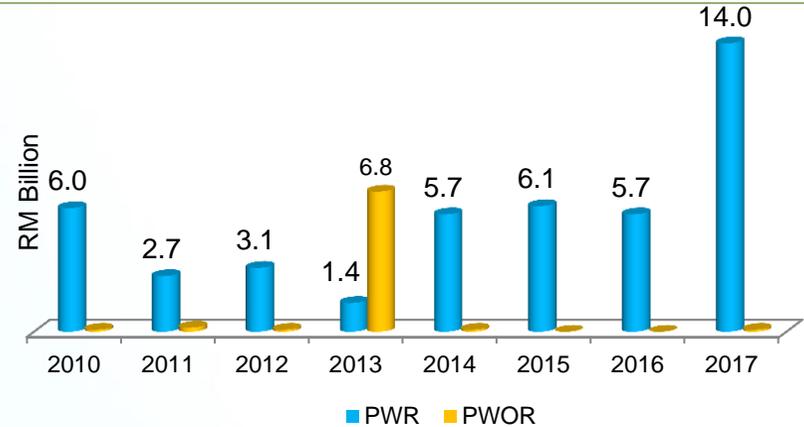
**Linking the mortgage market to the capital market** – development of the Residential Mortgage Backed Securities (RMBS) market for both conventional and Islamic





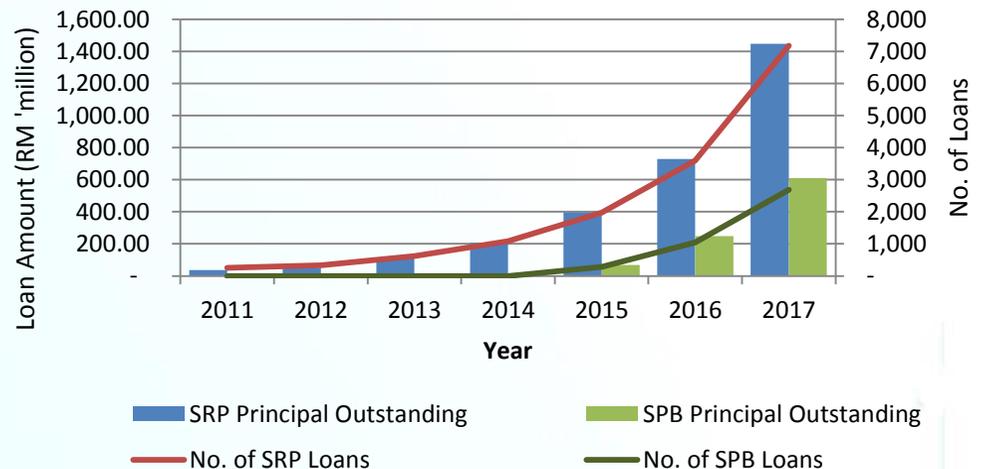
## Asset Purchased of PWR/PWOR

- Significant PWR purchase of RM14 billion in 2017 was due to FIs meeting net stable funding ratio (NSFR) for more stable funding requirements by 2019 and the need to maintain Liquidity Coverage Ratio (LCR) as part of implementation of BASEL III regulations.



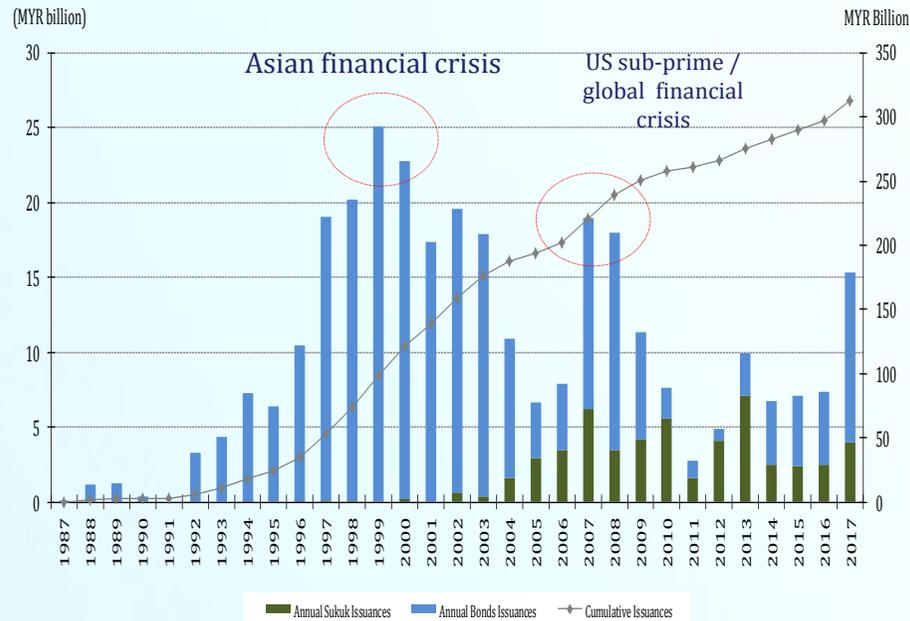
## Mortgage Guarantee Facility by CSRP Berhad

- Significant growth in both SRP and SPB since 2015
- No deterioration of credit profile for both schemes
- Government continue to support schemes via allocation of guarantee fee fund
- As at 31 Dec 2017, guarantee provided by CSRP has enabled 9,840 individuals/household to own their first home

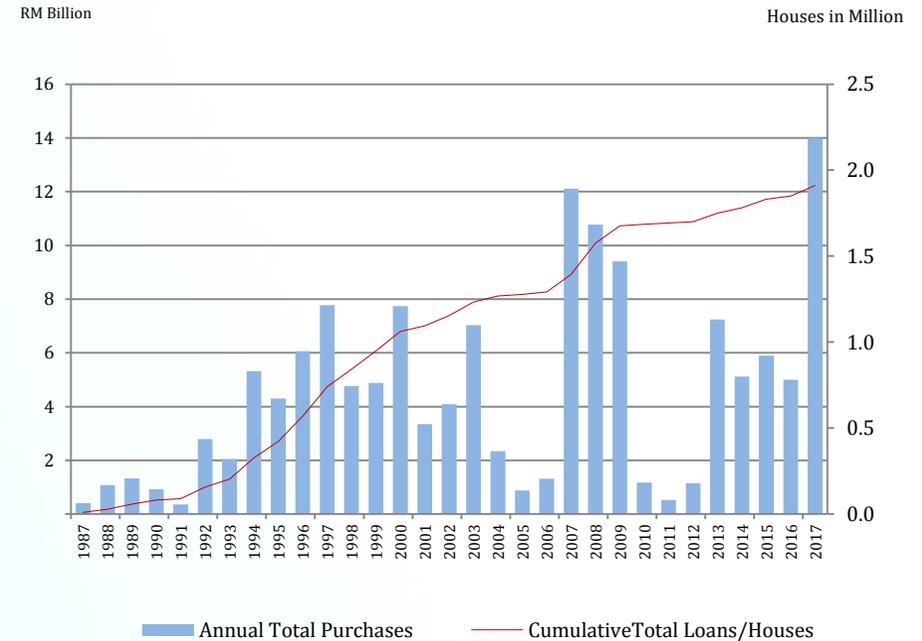


# Purchases and Issuances

## Total Issuances



## Cumulative Refinanced Housing Loans



- Issued **MYR312.1 billion** to the financial market and successfully redeemed **MYR272.5 billion** with no default .

- Cumulatively refinance housing loans in the secondary market equivalent to **MYR142 billion** or around **1.9 million houses** .



# Proactive Asset and Liability Management

## Match-Funding Policy

All assets purchases funded by bonds of matched size and duration

## Liquidity Ratio

Ability to pay off short term debt obligation. Ratios are higher than 1.0

## FAST Member

Facility Agent of its own debt securities as a FAST member

## Duration Gap

The duration gap of the Company shall not exceed 6 months

## Approved Interbank Institution

Interbank borrowing and repurchase agreement (REPO) as Approved Interbank Institution

## RENTAS Member

Intraday credit facility from BNM as RENTAS member

## Liquidity Gap Limit

Net funding requirement by assessing all cash inflow against outflows

## Registered Person" under CMSA

Issuance and distribution of its own debt securities as "Registered Person" under CMSA

## Strong Shareholders' Fund (SF)

Strong SF as additional source for liquidity needs

# Proactive Asset and Liability Management

(cont'd)



## Outstanding Bond/Sukuk and Assets

(MYR billion)

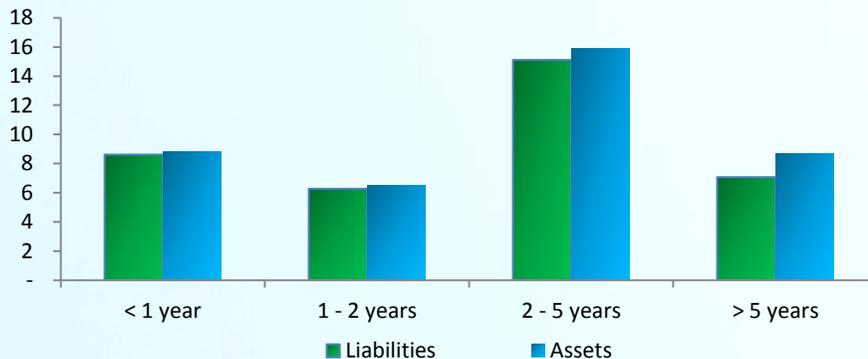


- Cagamas practices a **strict match-funding policy** where all asset purchases are funded by bonds/ sukuk of matching policy size, duration and self- sufficient in cash flows
- Cagamas also imposes a **duration gap limit** to manage liquidity and interest/profit rate risk



## Maturity profile of Bond/Sukuk and Asset

(MYR billion)



- The maturities of the assets and liabilities are also matched as close as possible
- Cagamas also places **limits on maximum shortfall (30% of shareholders' funds)** to meet maturing liabilities

# Our Initiatives to Diversify Investors Base and Funding Avenue

1

**Provision of competitively priced liquidity** vis a vis funding costs via successful issuance of investment grade bonds and sukuk

2

**Promote development of bond market** through:

- Issuance of various type of conventional and Islamic debt instruments across tenures in multiple currencies
- Promote efficient and robust price discovery for establishment of a reliable yield curve based on frequently traded bonds and sukuk in the secondary market

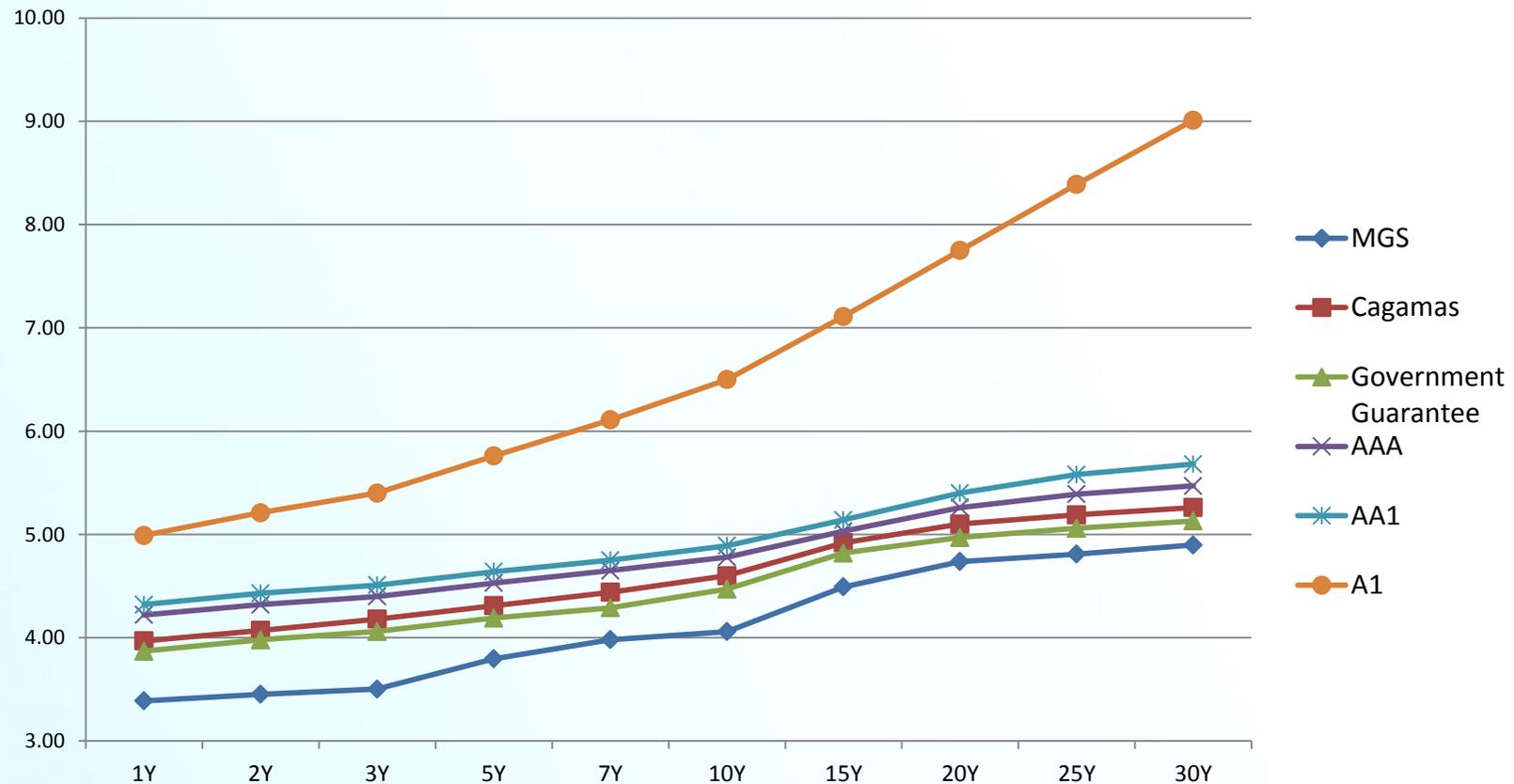
3

**Promotion of secondary liquidity** for outstanding bonds and sukuk via:

- **Reopening of existing stock**  
Enlarged existing tranche size would encourage trading activity and meet the prerequisite minimum size for inclusion into widely followed local currency bond indices
- **Inclusion of Cagamas bonds in widely followed indices**  
Promote greater visibility of the Company's debt securities particularly among international investors
- **Establishment of Bloomberg and Reuters pricing platform initiative**  
Widen market reach and enhance price dissemination across the globe

# Cagamas Bond Yield

Cagamas bond yield comparison against Malaysia Government Securities (MGS), Government Guaranteed, AAA, AA1 and A1 Corporate Bonds & Sukuk (CBS)\*



\*As at 31 Dec 2017

# Establishment of EMTN in 2014

(Multicurrency Medium Term Note Programme)

## Programme Objectives

- Widening the Company's investors base to reduce over reliance on single benchmark for pricing
- Diversify funding sources
- Funding of potential purchase of non MYR asset
- Developmental role in deepening and broadening the Malaysian and international debt capital market
- Achieve competitively priced funding from international liquidity pool

## Programme Features

Type	Conventional	Islamic
Programme Size	USD2.5 billion	USD2.5 billion
Tenor	Perpetual	Perpetual
Rating	A3 by Moody's	A3 by Moody's
Issue format	Regulation S only	Regulation S only
Governing Laws	English Law	English Law

# Investor's Profile based on Total Investor

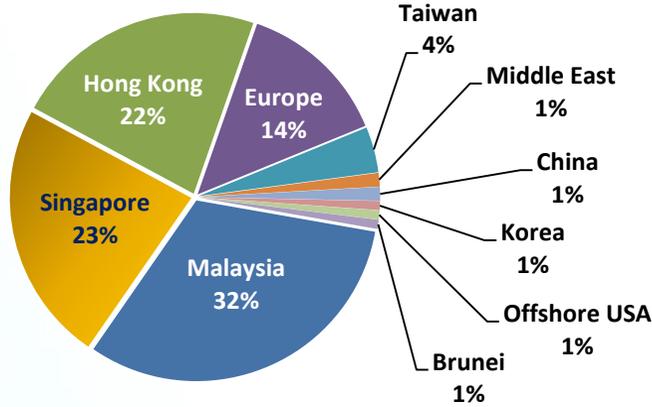
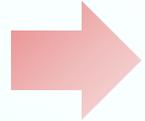
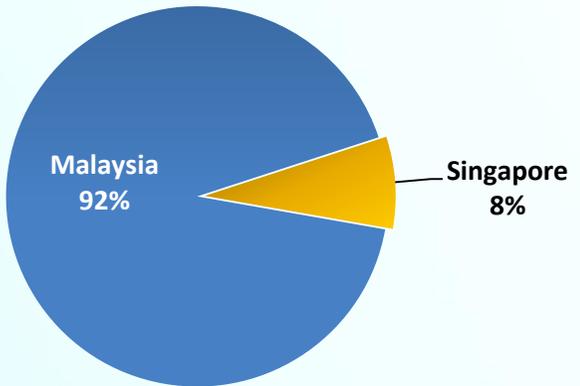


## Before Establishment of EMTN

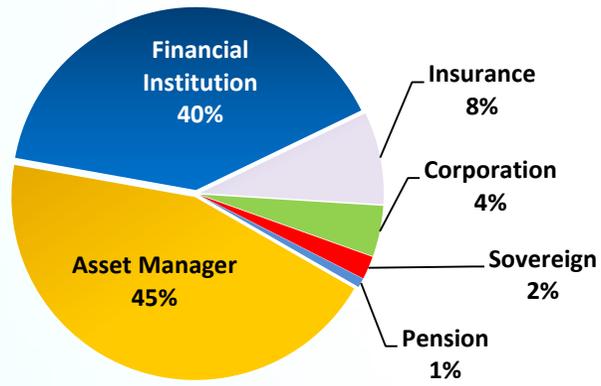
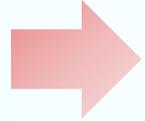
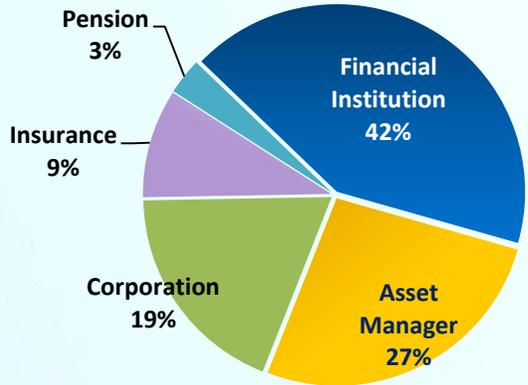


## After Establishment of EMTN

### By Country



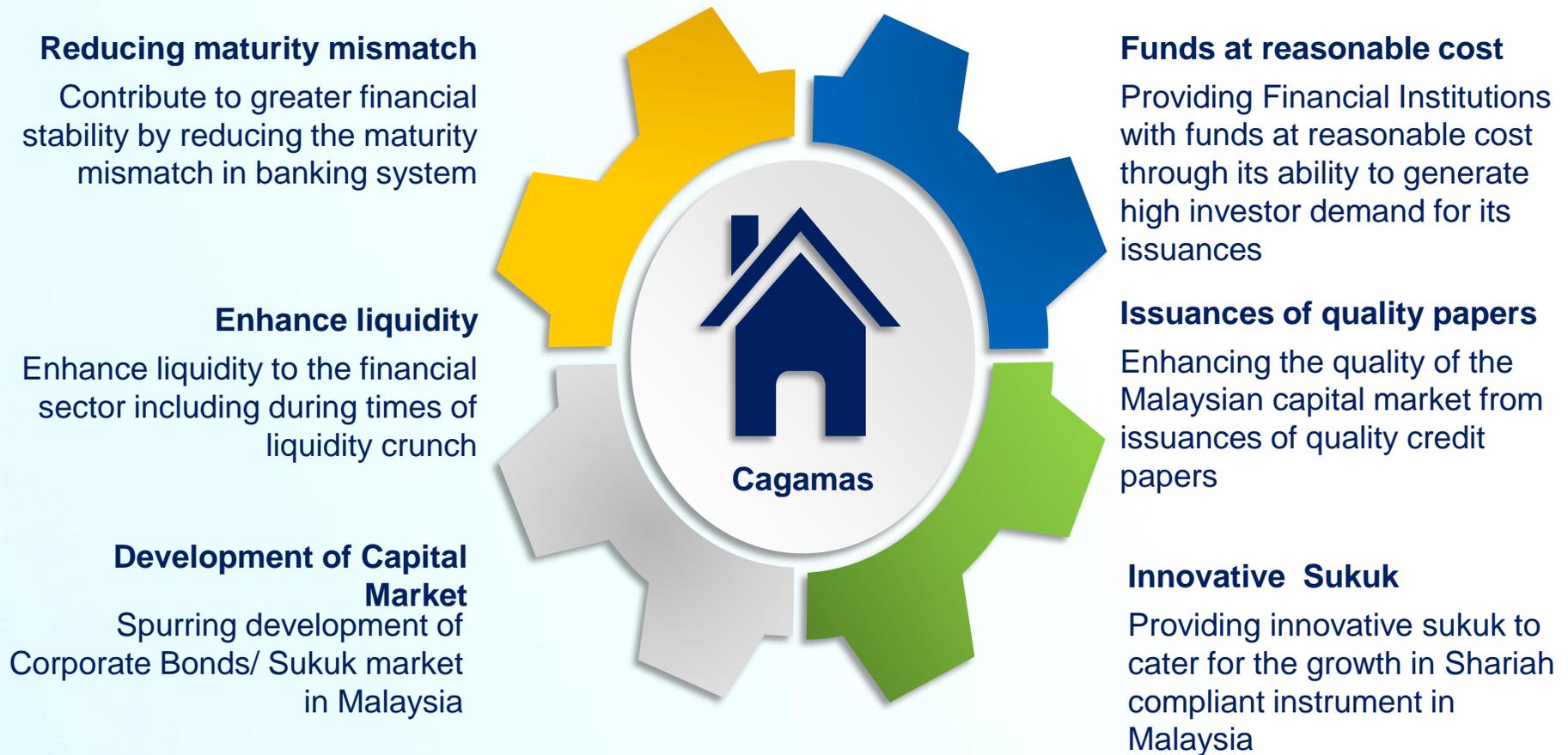
### By Type





# IMPACT OF CAGAMAS' ESTABLISHMENT

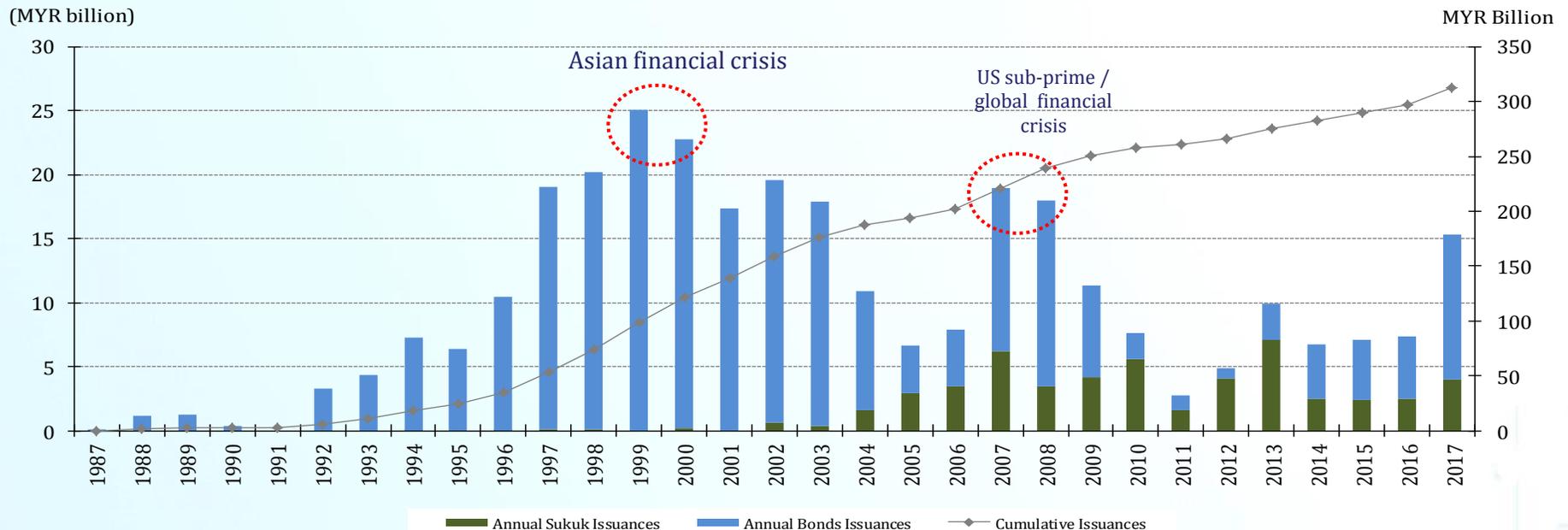
# Impact of Cagamas' Establishment



# Systemically Important to Domestic Financial System...

underscored by its dual function as liquidity provider and as a leading issuer of conventional and debt securities and sukuk

- Provide credit and portfolio risk management solutions
- Provide capital management solutions
- Conduit to remove systemic risk in the financial sector
- Conduit for best practices & setting up of standards – development of conforming financing standards
- Cagamas Group has issued papers worth MYR312.1 billion to the financial market and has successfully redeemed MYR272.5 billion with not even a single technical default as at December 2017





## **KEY SUCCESS FACTORS**

# Key Success Factors

## Cagamas Key Success Factor

### Solid financial standing & shareholding

- Profitable going concern
- Strong shareholders equity of RM3.4 billion as at 31 Dec17
- High RWCR of over 20%
- Strong shareholders in the form of CBA and FIs

### Strong management team

- Experienced and dedicated professional team
- Result oriented and performance driven culture
  - Robust risk management and corporate governance structure

### Support given by regulators

Implicit and explicit support given:-

- Implicit: Through Central Bank of Malaysia's shareholding in Cagamas
- Explicit: Through incentives by government and regulators at the initial stage



## **CHALLENGES & ACHIEVEMENTS**

# Some of the challenges....



# Key Achievements

1	Cumulatively issued a total of RM312.1 bil (USD78 bil) bonds and sukuk	6	Developed and structured innovative Islamic financial instruments and solutions
2	Cumulatively refinanced housing loans in the secondary market worth up to RM142 bil (USD35.5 bil) or 1.9 million houses	7	Issued Malaysia's first Residential Mortgage-Backed Securities (RMBS) and world's first rated Sukuk Musyarakah RMBS
3	Provided guarantees for housing loans totaling RM2.1bil (USD0.5 bil) , enabling 9,840 individuals/households to own their first home under My First Home Scheme and Youth Housing Scheme	8	Cagamas' model is well regarded by the World Bank as a successful secondary mortgage liquidity facility
4	Establishment of US\$5bil Conventional and Islamic Multi Currency Euro Medium Term Note Programme (EMTN) in 2014	9	Executed ASEAN's first synthetic securitisation of SME loans and issued secured Credit Linked Notes
5	Maintained local credit rating of AAA by RAM and MARC , denoting its strong capitalisation, robust asset quality, stable profitability, prudent risk management and sound corporate governance	10	Issued inaugural RMB denominated bonds and settled via RENTAS





## **MOVING FORWARD**

# Moving Forward

1

To continue to support Government' initiatives in enabling housing access particularly in the area of affordable housing

2

To spearhead and be a catalyst in support of Government' initiatives to enhance the efficiency, functioning and diversification of the Malaysian debt capital market by providing capital market solutions particularly in the area of Islamic finance and environmentally friendly financial instruments

3

To continue to function as intermediary between primary lenders and investors of long term funds. It aims to enhance and support in the stabilisation of financial sector in the country

4

To be the main secondary liquidity facility in the country to support the growth of main contributing sectors to Malaysia GDP i.e. infrastructure/SME

5

To promote and replicate Cagamas business model in South East Asia to complement Malaysian financial institutions expanding abroad

6

To provide risk and capital management solutions to assist financial institutions in light of Basel III requirements

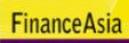


## **AWARDS & ACCOLADES**

# AWARDS & ACCOLADES

 <p><b>Best Quasi-Sovereign Sukuk</b> 2018</p> <p>Cagamas Dual Re-opening of Three-Year 475 Million Ringgit Sukuk And 525 Million Ringgit Sukuk</p>	 <p><b>Islamic Issuer of the Year - Quasi-Sovereign</b> 2018</p>	 <p><b>BOND PRICING AGENCY MALAYSIA</b></p> <p>Top Bond Issuer - Conventional Top Traded Amount - Overall Top Traded Amount - Conventional</p> <p>2018</p>	 <p><b>Best Islamic Issuer-Quasi-Sovereign</b> 2017</p>	 <p><b>Best Local Currency Sukuk</b> 2017</p> <p>375 Million Ringgit Commodity Murabahah Sukuk</p>	 <p><b>BOND PRICING AGENCY MALAYSIA</b></p> <p>Top Trade Amount Overall Top Trade Amount Conventional Top Trade Amount Islamic</p> <p>2016</p>	 <p><b>GLOBAL ISLAMIC FINANCE AWARDS</b></p> <p><b>Islamic Finance Advocacy Award (Institutional)</b> 2016</p>	 <p><b>Outstanding Contribution for the Development of Shariah-Compliant Mortgage Securitisation</b> 2016</p>
 <p><b>Best Local Currency Sukuk</b> 2016</p> <p>Cagamas 500 million ringgit Commodity Murabahah sukuk</p>	 <p><b>Treasurer of the Year - Malaysia</b> 2016</p>	 <p><b>Emas Status</b> 2016</p> <p>Cagamas USD2.5 billion Multicurrency Sukuk Issuance Programme</p>	 <p><b>Best Corporate Sukuk</b> 2015</p> <p>Cagamas RM70 million One-Year and RM930 million Three-Year Sukuk</p>	 <p><b>Best Issuer of the Year for Corporate</b> 2015</p>	 <p><b>Emas Status</b> 2014</p> <p>Cagamas Offshore Renminbi Medium Term Notes Issurance</p>	 <p><b>Market Pioneer Award for the World's 1st RMB-bond by a Mortgage Corporation</b> 2014</p> <p>Cagamas RMB1.5 billion Offshore RMB Bond</p>	 <p><b>Best Renminbi (Offshore) Offering</b> 2014</p> <p>Cagamas RMB1.5 billion Offshore RMB Bond</p>
 <p><b>Best Foreign Currency Bond Deal of The Year 2014 in Southeast Asia</b> 2014</p> <p>Cagamas RMB1.5 billion Offshore RMB Bond</p>	 <p><b>Best Deal- Highly Commended, Malaysia</b> 2014</p> <p>Cagamas 3.8 Billion Ringgit Multi-Tenor Sukuk</p>	 <p><b>Most Outstanding Securitisation House</b> 2013</p>	 <p><b>Highly Commended / Most Innovative Deal</b> 2013</p> <p>Cagamas 500 million ringgit multi-tenor Sukuk Wakala Bil Istithmar</p>	 <p><b>Best Islamic Commodity-linked Murabaha</b> 2011</p> <p>RM230 million Variable Rate Sukuk Commodity Murabahah</p>	 <p><b>Best Islamic Deal, Malaysia</b> 2011</p> <p>Cagamas RM1.0 billion Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm)</p>	 <p><b>Islamic Issuer of the Year</b> 2011</p> <p>Cagamas RM1.0 billion Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm)</p>	 <p><b>Sukuk Issuer of the Year</b> 2011</p>

# AWARDS & ACCOLADES (cont'd)

 <p><b>Islamic Deal of the Year</b></p> <p>2011</p> <p>Cagamas RM1.0 billion Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm)</p>	 <p><b>Malaysian Innovation of the Year</b></p> <p>2010</p> <p>Cagamas RM5.0 billion Sukuk al-Amanah Li al-Istithmar programme (Sukuk ALIm)</p>	 <p><b>Country Deals of the Year</b></p> <p>2010</p> <p>Cagamas RM1.0 billion Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm)</p>	 <p><b>Tawarruq Deal of the Year</b></p> <p>2010</p> <p>RM230 million Variable Rate Sukuk Commodity Murabahah</p>	 <p><b>Islamic Deal of the Year</b></p> <p>2010</p> <p>Cagamas RM1.0 billion Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm)</p>	 <p><b>Tawarruq Deal of the Year</b></p> <p>2009</p> <p>Sukuk Commodity Murabahah RM915 million Medium Term Notes</p>	 <p><b>Most Innovative Deal of the Year</b></p> <p>2009</p> <p>Sukuk Commodity Murabahah RM915 million Medium Term Notes</p>
 <p><b>Most Innovative Islamic Finance Deal</b></p> <p>2008</p> <p>RM2.015 billion Sukuk Commodity Murabahah</p>	 <p><b>Islamic Issuer of the Year</b></p> <p>2008</p>	 <p><b>New Structured Finance Benchmark Deal</b></p> <p>2007</p> <p>Cagamas SME Berhad Synthetic Securitisation of RM600 million SME Loans</p>	 <p><b>Best Domestic Securitisation</b></p> <p>2007</p> <p>Cagamas SME Berhad Synthetic Securitisation of RM600 million SME Loans</p>	 <p><b>Asian Deal of the Year</b></p> <p>2007</p> <p>Cagamas SME Berhad Synthetic Securitisation of RM600 million SME Loans</p>	 <p><b>Malaysia Capital Markets Deal of the Year</b></p> <p>2007</p> <p>Cagamas SME Berhad Synthetic Securitisation of RM600 million SME Loans</p>	 <p><b>New Islamic Benchmark Deal</b></p> <p>2005</p> <p>Cagamas MBS Berhad RM2.05 billion Islamic Residential Mortgage-Backed Sukuk Musyarakah</p>
 <p><b>Islamic Finance Deal of the Year</b></p> <p>2005</p> <p>Cagamas MBS Berhad RM2.05 billion Islamic Residential Mortgage-Backed Sukuk Musyarakah</p>	 <p><b>Best Malaysia Deal Best Domestic Securitisation Deal Best Islamic Finance Deal</b></p> <p>2005</p> <p>Cagamas MBS Berhad RM2.05 billion Islamic Residential Mortgage-Backed Sukuk Musyarakah</p>	 <p><b>Best Malaysian Ringgit Bond</b></p> <p>2004</p> <p>Cagamas MBS Berhad RM1.55 billion Residential Mortgage-Backed Securities</p>	 <p><b>Best Local Currency Bond in Asia</b></p> <p>2004</p> <p>Cagamas MBS Berhad RM1.55 billion Residential Mortgage-Backed Securities</p>	 <p><b>Best Local Currency Bond Deal of the Year</b></p> <p>2004</p> <p>Cagamas MBS Berhad RM1.55 billion Residential Mortgage-Backed Securities</p>		

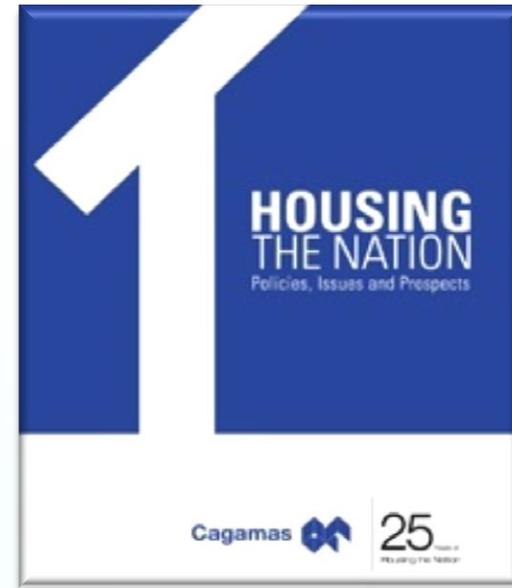
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Thank you